

CALHOUN PORT AUTHORITY

ANNUAL FINANCIAL REPORT

For the year ended June 30, 2017

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditors' Report	1
Management's Discussion and Analysis.....	3
<u>Basic Financial Statements</u>	
Government-wide Financial Statements	
Statement of Net Position.....	9
Statement of Activities	10
Fund Financial Statements	
Balance Sheet - Governmental Funds	12
Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities	13
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	14
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	15
Statement of Net Position - Proprietary Funds.....	16
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds.....	17
Statement of Cash Flows - Proprietary Funds	18
Notes to Financial Statements.....	19
<u>Required Supplementary Information</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual - General Fund	33
Notes to Required Supplementary Information	34
<u>Other Supplementary Information</u>	
Schedule of Principal Property Taxpayers - Tax Year 2017 (Unaudited).....	35
Schedule of Insurance Coverage (Unaudited)	36
Cargo Traffic Statistics (Unaudited).....	38

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Calhoun Port Authority
Point Comfort, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Calhoun Port Authority (the "Port") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Board of Commissioners
Calhoun Port Authority

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Calhoun Port Authority as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Port's basic financial statements. The schedules on pages 35 through 39 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules on pages 35 through 39 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Harrison, Waldrop & Whetzel, LLP

November 6, 2017

CALHOUN PORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

As management of the Calhoun Port Authority, Calhoun County, Texas (the "Port"), we offer readers of the Port's financial statements this narrative overview and analysis of the financial activities of the Port for the fiscal year ended June 30, 2017. The government-wide statements include not only the Port, but also one legally separate blended component unit, the Calhoun County Navigation Industrial Development Authority (CCNIDA). This discussion and analysis is designed to assist the reader in concentrating on the significant financial issues and activities and to identify any significant changes in financial position. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- The assets of the Port exceeded its liabilities and deferred inflow of resources at the close of the fiscal year ended June 30, 2017, by \$53,364,995.
- At June 30, 2017, the Port's governmental funds reported combined ending fund balances of \$50,499,656, which is an increase of \$2,919,084 in comparison with the prior year.
- At June 30, 2017, the unassigned fund balance for General Fund was \$18,098,775 or 351.89% of actual expenditures of \$5,143,917. Budgeted expenditures totaled \$4,982,402, and the difference is principally due to higher professional fees related to the development of the South Peninsula Project.
- The Port's total net debt remained unchanged.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Port's basic financial statements. The Port's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements.

Organization and Flow of Financial Section Information

Independent Auditors' Report

Provides the opinion of the Independent Auditors on the fair presentation of the basic financial statements.

Management's Discussion and Analysis

This supplementary information is required for state and local government financial statements and is intended to provide a narrative introduction and analysis.

Pages 3 to 8

Government-wide Financial Statements

Provides information on governmental and business-type activities of the primary government.

Pages 9 to 11

Fund Financial Statements

Provides information on the financial position of specific funds of the primary governments.

Pages 12 to 18

Notes to Financial Statements

Provides a summary of significant accounting policies and related disclosures.

Pages 19 to 32

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities

The analysis of the Port's overall financial condition and operations begins on page 5. Its primary purpose is to show whether the Port's financial condition improved or declined as a result of the year's activities. The Statement of Net Position includes all the Port's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the Port's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All the Port's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the Port's net position and changes in them. The Port's net position (the difference between assets and liabilities) provide one measure of the Port's financial health, or financial position. Over time, increases or decreases in the Port's net position is one indicator of whether its financial health is improving or declining. To fully assess the overall health of the Port, however, you should consider non-financial factors as well, such as changes in the Port's property tax base and the condition of the Port's facilities.

In the Statement of Net Position and the Statement of Activities, we disclose the Port's two types of activities:

Governmental activities - All of the Port's basic services are reported here. User fees finance most of these activities.

Business-type activities - The Port accounts for its storage fees and related expenses for the AN/NH3 Facility.

Fund Financial Statements

The fund financial statements begin on page 12 and provide detailed information about the most significant funds - not the Port as a whole. Laws and contracts require the Port to establish some funds. The Port's administration establishes other funds to help it control and manage money for particular purposes such as debt service and capital projects.

Governmental funds - All of the Port's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the Port's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Port, assets exceeded liabilities by \$53,364,995 at the close of the year ended June 30, 2017.

The Port's net investment in capital assets, is \$32,306,911, 60.54% of total net position, which, reflects its investment in capital assets (i.e., land, buildings, machinery, and equipment), less a related debt used to acquire those assets that are still outstanding. The Port uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the Port's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Calhoun Port Authority

Net Position

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current assets	\$ 19,821,099	\$ 16,731,544	\$ 3,335,373	\$ 3,411,370	\$ 23,156,472	\$ 20,142,914
Internal balances	32,400,000	32,400,000	(32,400,000)	(32,400,000)	-	-
Capital assets (net)	47,886,112	76,169,906	16,820,800	17,796,435	64,706,912	93,966,341
Total assets	<u>100,107,211</u>	<u>125,301,450</u>	<u>(12,243,827)</u>	<u>(11,192,195)</u>	<u>87,863,384</u>	<u>114,109,255</u>
Liabilities						
Current liabilities	498,360	143,112	99,578	61,830	597,938	204,942
Long-term debt, net of current portion	<u>32,400,000</u>	<u>32,400,000</u>	<u>-</u>	<u>-</u>	<u>32,400,000</u>	<u>32,400,000</u>
Total liabilities	<u>32,898,360</u>	<u>32,543,112</u>	<u>99,578</u>	<u>61,830</u>	<u>32,997,938</u>	<u>32,604,942</u>
Deferred inflow of resources						
Unearned revenue	<u>1,221,548</u>	<u>1,405,557</u>	<u>278,903</u>	<u>278,903</u>	<u>1,500,451</u>	<u>1,684,460</u>
Total inflows of resources	<u>1,221,548</u>	<u>1,405,557</u>	<u>278,903</u>	<u>278,903</u>	<u>1,500,451</u>	<u>1,684,460</u>
Net position						
Net investment in capital assets	47,886,112	76,169,906	(15,579,201)	(14,603,565)	32,306,911	61,566,341
Unrestricted	<u>18,101,191</u>	<u>15,182,875</u>	<u>2,956,893</u>	<u>3,070,637</u>	<u>21,058,084</u>	<u>18,253,512</u>
Total net position	<u>\$ 65,987,303</u>	<u>\$ 91,352,781</u>	<u>\$ (12,622,308)</u>	<u>\$ (11,532,928)</u>	<u>\$ 53,364,995</u>	<u>\$ 79,819,853</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

Calhoun Port Authority						
Changes in Net Position						
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Charges for services	\$ 7,610,919	\$ 8,233,851	\$ 2,769,133	\$ 4,131,396	\$ 10,380,052	\$ 12,365,247
General revenues	451,314	372,303	14,909	13,673	466,223	385,976
Total revenues	<u>8,062,233</u>	<u>8,606,154</u>	<u>2,784,042</u>	<u>4,145,069</u>	<u>10,846,275</u>	<u>12,751,223</u>
Expenses						
Port operations	6,658,685	6,623,526	-	-	6,658,685	6,623,526
AN/NH3 Facility	-	-	3,873,422	4,347,104	3,873,422	4,347,104
Total expenses	<u>6,658,685</u>	<u>6,623,526</u>	<u>3,873,422</u>	<u>4,347,104</u>	<u>10,532,107</u>	<u>10,970,630</u>
Change in net position	1,403,548	1,982,628	(1,089,380)	(202,035)	314,168	1,780,593
Extraordinary item	(26,769,026)	(3,548,178)	-	-	(26,769,026)	(3,548,178)
Net position - beginning	<u>91,352,781</u>	<u>92,918,331</u>	<u>(11,532,928)</u>	<u>(11,330,893)</u>	<u>79,819,853</u>	<u>81,587,438</u>
Net position - ending	<u>\$ 65,987,303</u>	<u>\$ 91,352,781</u>	<u>\$ (12,622,308)</u>	<u>\$ (11,532,928)</u>	<u>\$ 53,364,995</u>	<u>\$ 79,819,853</u>

The cost of all governmental activities this year was \$6,658,685 compared to \$6,623,526 last year.

FINANCIAL ANALYSIS OF THE PORT'S FUNDS

As the Port completed the year, its governmental funds reported a combined fund balance of \$50,499,656 which is an increase of \$2,919,084 from last year's total of \$47,580,572. Included in this year's total change in fund balance is an increase of \$2,919,079 in the Port's General Fund and an increase of \$5 in the CCNIDA.

At the end of 2017, the General Fund's unassigned fund balance was \$18,098,775.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Port's Commissioners revised the Port's budget. These budget amendments occurred as a result of operating conditions that varied from anticipated levels. The original budget estimated operating revenues of \$8,126,358 and expenditures of \$5,928,803. Due to changes in the operations, the estimated revenues were revised to \$7,948,335 and expenditures were decreased to \$4,982,402. Actual expenditures exceeded the budget by \$161,515 due to an increase related to engineering services for the South Peninsula Project.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Port's investment in capital assets for its governmental and business-type activities amounts to \$64,706,912 (net of accumulated depreciation) at the end of the current fiscal year. This investment in capital assets includes land, buildings, improvements, vehicles, machinery and equipment, and infrastructure. The net decrease in the Port's investment in capital assets was \$29,259,429 (a 37.13% decrease for governmental activities and a 5.48% decrease in business-type activities). The reason for the large decrease was due to the impairment loss recorded. See Note 12 to the financial statements.

Calhoun Port Authority

Capital Assets (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 9,319,447	\$ 9,004,813	\$ 65,000	\$ 65,000	\$ 9,384,447	\$ 9,069,813
Construction in progress	1,566,997	1,000,000	-	-	1,566,997	1,000,000
Machinery and equipment	282,355	321,129	685,704	723,859	968,059	1,044,988
Buildings and improvements	1,250,572	1,294,019	-	-	1,250,572	1,294,019
Infrastructure	<u>35,466,741</u>	<u>64,549,945</u>	<u>16,070,096</u>	<u>17,007,576</u>	<u>51,536,837</u>	<u>81,557,521</u>
Total	<u>\$ 47,886,112</u>	<u>\$ 76,169,906</u>	<u>\$ 16,820,800</u>	<u>\$ 17,796,435</u>	<u>\$ 64,706,912</u>	<u>\$ 93,966,341</u>

More detailed information about the Port's capital assets is presented in Note 4 to the financial statements.

Long-term Debt

As of June 30, 2017, the Port had long-term debt outstanding of \$32,400,000. This amount is comprised of general revenue bonds and is fully guaranteed BP Amoco. Additional information regarding the Port's long-term debt can be found in Note 5 to the financial statements on pages 27 and 28. The following table summarizes the Port's long-term debt outstanding as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
General Revenue Bonds	<u>\$ 32,400,000</u>	<u>\$ 32,400,000</u>
Total long-term debt	<u>\$ 32,400,000</u>	<u>\$ 32,400,000</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The basic financial statements emphasize the Port's intent to recover the costs of its activities through its user fees and other charges. The results for 2017 were affected by a decrease in overall throughput. In addition, the Port experienced an increase in revenues due to a decrease in capital expenditures.

The Port has budgeted about \$2,866,400 for capital improvements during the fiscal year ending June 30, 2018.

The Port has a lease agreement with NGL Crude Terminals for a 10 year period on 17.85 acres for \$446,250 per year. There are two storage tanks for crude oil and condensate that will total 355,000 barrels. The total throughput via the terminal for the first quarter of FY2018 is 106,652.4 short tons or approximately 237,000 barrels per month via barges. The lease has a guaranteed annual throughput of 500,000 short tons.

Matagorda Bay Costa Azul Terminal, LLC, has been assigned the SN Terminal LLC lease on 35.55 acres. Matagorda Bay Costa Azul LLC is a wholly owned subsidiary of NGL Energy and will use this property to expand their storage capacity at the Calhoun Port Authority. This lease has a guaranteed throughput on their acreage of 300,000 short tons.

NST Point Comfort Holdings LLC has constructed a 100,000 barrel storage facility for crude oil and condensate shipments via the port on deep draft vessels and barges. The total guaranteed throughput for the facility is 500,000 short tons per year. NST purchased a twelve inch pipe line from CrossTex Pipeline that originates outside of Edna, Texas and terminates inside the NST leasehold. This line will be utilized to tie into other pipe lines coming out of the Eagle Ford Shale play to bring crude oil and condensate into the NST storage facility. NST Point Comfort Holdings has moved approximately 177,000 barrels of crude oil and condensate during the first quarter of FY2018.

The Calhoun Port Authority has leased 11.76 acres of land to Arrowhead Pipeline for \$7,500 per acre for a 10 year initial period with the annual lease payment being \$88,200. Arrowhead has the option of renewing the lease for four five year periods. Arrowhead has constructed a 200,000 barrel storage tank for crude oil and condensate that will be shipped out of the Port in barges and deep draft vessels. Arrowhead is expecting to begin shipping crude oil and condensate beginning in April of 2018 across the port's general cargo dock. Guaranteed throughput for this lease is 500,000 short tons per year.

The Calhoun Port Authority has entered into an option to lease agreement for approximately 45.0 acres of land located on the Port's South Peninsula property with Namerico Energy Holdings, LLC for a 1 year period beginning August 9, 2017 and ending on August 8, 2018 for an option fee of \$237,500.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Port's finances and to show the Port's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Port's business office, at Calhoun Port Authority, Port Director, P.O. Box 397, Point Comfort, Texas 77978.

Basic Financial Statements

CALHOUN PORT AUTHORITY
STATEMENT OF NET POSITION
June 30, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 19,465,658	\$ 2,912,675	\$ 22,378,333
Receivables (net)	259,354	253,948	513,302
Prepaid items	96,087	168,750	264,837
Internal balances	32,400,000	(32,400,000)	-
Total current assets	<u>52,221,099</u>	<u>(29,064,627)</u>	<u>23,156,472</u>
Noncurrent assets			
Capital assets			
Land and other assets not being depreciated	10,886,444	65,000	10,951,444
Buildings, improvements, and equipment (net)	36,999,668	16,755,800	53,755,468
Total noncurrent assets	<u>47,886,112</u>	<u>16,820,800</u>	<u>64,706,912</u>
Total assets	<u>100,107,211</u>	<u>(12,243,827)</u>	<u>87,863,384</u>
LIABILITIES			
Current liabilities			
Accounts payable	498,360	99,578	597,938
Total current liabilities	<u>498,360</u>	<u>99,578</u>	<u>597,938</u>
Noncurrent liabilities			
Noncurrent portion of long-term obligations	32,400,000	-	32,400,000
Total noncurrent liabilities	<u>32,400,000</u>	<u>-</u>	<u>32,400,000</u>
Total liabilities	<u>32,898,360</u>	<u>99,578</u>	<u>32,997,938</u>
DEFERRED INFLOW OF RESOURCES			
Unearned lease income and other fees	1,221,548	278,903	1,500,451
Total deferred inflows of resources	<u>1,221,548</u>	<u>278,903</u>	<u>1,500,451</u>
NET POSITION			
Net investment in capital assets	47,886,112	(15,579,201)	32,306,911
Unrestricted net position	18,101,191	2,956,892	21,058,083
Total net position	<u>\$ 65,987,303</u>	<u>\$ (12,622,309)</u>	<u>\$ 53,364,994</u>

The accompanying notes are an integral part of this statement.

CALHOUN PORT AUTHORITY
STATEMENT OF ACTIVITIES
For the year ended June 30, 2017

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
Port operations	\$ 6,658,685	\$ 7,610,919	\$ -	\$ -
Total governmental activities	<u>6,658,685</u>	<u>7,610,919</u>	<u>-</u>	<u>-</u>
Business-type activities				
AN/NH3 Facility	<u>3,873,422</u>	<u>2,769,133</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>3,873,422</u>	<u>2,769,133</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 10,532,107</u>	<u>\$ 10,380,052</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Property taxes, levied for general purposes

Unrestricted investment earnings

Miscellaneous

Extraordinary item

Total general revenues and extraordinary item

Change in net position

Net position - beginning

Net position - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ 952,234	\$ -	\$ 952,234
952,234	-	952,234
-	(1,104,289)	(1,104,289)
-	(1,104,289)	(1,104,289)
952,234	(1,104,289)	(152,055)
21,469	-	21,469
103,037	14,909	117,946
326,808	-	326,808
(26,769,026)	-	(26,769,026)
(26,317,712)	14,909	(26,302,803)
(25,365,478)	(1,089,380)	(26,454,858)
91,352,781	(11,532,928)	79,819,853
\$ 65,987,303	\$ (12,622,308)	\$ 53,364,995

CALHOUN PORT AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	General Fund	Industrial Development Authority	Total Governmental Funds
ASSETS			
Current assets			
Cash and cash equivalents	\$ 19,464,777	\$ 881	\$ 19,465,658
Receivables (net)	259,354	-	259,354
Prepaid expenditures	96,087	-	96,087
Noncurrent assets			
Advance to other funds	-	32,400,000	32,400,000
Total assets	<u>\$ 19,820,218</u>	<u>\$ 32,400,881</u>	<u>\$ 52,221,099</u>
LIABILITIES			
Accounts payable	\$ 498,360	\$ -	\$ 498,360
Total liabilities	<u>498,360</u>	<u>-</u>	<u>498,360</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	1,535	-	1,535
Unearned revenue - leases and fees	1,221,548	-	1,221,548
Total deferred inflows of resources	<u>1,223,083</u>	<u>-</u>	<u>1,223,083</u>
Fund balances			
Nonspendable			
Non-current receivables	-	32,400,000	32,400,000
Unassigned	18,098,775	881	18,099,656
Total fund balances	<u>18,098,775</u>	<u>32,400,881</u>	<u>50,499,656</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 19,820,218</u>	<u>\$ 32,400,881</u>	<u>\$ 52,221,099</u>

The accompanying notes are an integral part of this statement.

CALHOUN PORT AUTHORITY**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION
OF GOVERNMENTAL ACTIVITIES***June 30, 2017*

Total governmental fund balances	\$ 50,499,656
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as "unearned" in the funds.	1,535
Capital assets used in governmental activities are reported as expenditures in governmental funds when purchased or constructed. The cost of these assets is \$134,443,036 and the accumulated depreciation is \$86,556,924.	47,886,112
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Bonds payable	<u>(32,400,000)</u>
Net position of governmental activities	<u>\$ 65,987,303</u>

The accompanying notes are an integral part of this statement.

CALHOUN PORT AUTHORITY**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES****GOVERNMENTAL FUNDS***For the year ended June 30, 2017*

	General Fund	Industrial Development Authority	Total Governmental Funds
REVENUES			
Taxes			
Ad valorem taxes	\$ 22,237	\$ -	\$ 22,237
Charges for services			
Wharfage	1,159,241	-	1,159,241
Dockage	1,048,294	-	1,048,294
Leases	4,965,103	-	4,965,103
Usage fees	435,881	-	435,881
Investment income			
Interest	103,032	5	103,037
Intergovernmental	2,400	-	2,400
Miscellaneous	326,808	-	326,808
Total revenues	<u>8,062,996</u>	<u>5</u>	<u>8,063,001</u>
EXPENDITURES			
Current			
Administrative			
Personnel costs	1,623,365	-	1,623,365
Other	636,505	-	636,505
Maintenance and operations	1,236,762	-	1,236,762
Security	289,231	-	289,231
Debt service contribution	42,336	-	42,336
Professional services	971,841	-	971,841
Capital outlay	343,877	-	343,877
Total expenditures	<u>5,143,917</u>	<u>-</u>	<u>5,143,917</u>
Excess (deficiency) of revenues over expenditures	2,919,079	5	2,919,084
Fund balances - beginning	<u>15,179,696</u>	<u>32,400,876</u>	<u>47,580,572</u>
Fund balances - ending	<u>\$ 18,098,775</u>	<u>\$ 32,400,881</u>	<u>\$ 50,499,656</u>

The accompanying notes are an integral part of this statement.

CALHOUN PORT AUTHORITY**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the year ended June 30, 2017

Total net change in fund balances - governmental funds**\$ 2,919,084**

Amounts reported for governmental activities in the statement of activities are different because:

Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the 2016-2017 capital outlays is to increase net position.

Increase in capital assets	\$ 1,018,026	
Depreciation	<u>(2,532,794)</u>	(1,514,768)

During the year the Port incurred an impairment loss on the loss of value associated with an asset that has been recorded on the Port's financial statements. The amount is reflected on the government-wide financial statements as an extraordinary item.

(26,769,026)

Because some property taxes will not be collected for several months after the Port's fiscal year ends, they are not considered "available" revenues and are reported as "unavailable" in the governmental funds.

Property taxes		<u>(768)</u>
----------------	--	--------------

Change in net position of governmental activities**\$ (25,365,478)**

CALHOUN PORT AUTHORITY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2017

	Business-type Activities <u>AN/NH3 Facility</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 2,912,675
Receivables (net)	253,948
Prepaid items	<u>168,750</u>
Total current assets	<u>3,335,373</u>
Capital assets, net	<u>16,820,800</u>
Total assets	<u>20,156,173</u>
LIABILITIES	
Current liabilities	
Accounts payable	<u>99,578</u>
Total current liabilities	<u>99,578</u>
Noncurrent liabilities	
Advance from other funds	<u>32,400,000</u>
Total noncurrent liabilities	<u>32,400,000</u>
Total liabilities	<u>32,499,578</u>
DEFERRED INFLOW OF RESOURCES	
Unearned lease income and other fees	<u>278,903</u>
Total deferred inflows of resources	<u>278,903</u>
NET POSITION	
Net investment in capital assets	(15,579,200)
Unrestricted net position	<u>2,956,892</u>
Total net position	<u>\$ (12,622,308)</u>

The accompanying notes are an integral part of this statement.

CALHOUN PORT AUTHORITY**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION****PROPRIETARY FUNDS***For the year ended June 30, 2017*

	<u>Business-type Activities AN/NH3 Facility</u>
OPERATING REVENUES	
Fees	<u>\$ 2,769,133</u>
OPERATING EXPENSES	
Operating expenses	2,629,136
Depreciation	<u>975,635</u>
Total operating expenses	<u>3,604,771</u>
Operating income (loss) before nonoperating revenues (expenses)	(835,638)
NONOPERATING REVENUES (EXPENSES)	
Investment income	14,909
Interest and fiscal charges	<u>(268,651)</u>
Net nonoperating revenues (expenses)	<u>(253,742)</u>
Change in net position	(1,089,380)
Total net position at beginning of year	<u>(11,532,928)</u>
Total net position at end of year	<u><u>\$ (12,622,308)</u></u>

The accompanying notes are an integral part of this statement.

CALHOUN PORT AUTHORITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended June 30, 2017

	Business-type Activities <u>AN/NH3 Facility</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 3,166,189
Cash payments to suppliers for goods and services	<u>(2,591,388)</u>
Net cash provided (used) by operating activities	<u>574,801</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Interest and finance charges paid on bonds	<u>(268,651)</u>
Net cash provided (used) by capital and related financing activities	<u>(268,651)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>14,909</u>
Net cash provided by investing activities	<u>14,909</u>
Net increase (decrease) in cash and cash equivalents	321,059
Cash and cash equivalents at beginning of year	<u>2,591,616</u>
Cash and cash equivalents at end of year	<u><u>\$ 2,912,675</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ (835,638)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities	
Depreciation	975,635
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	397,056
Increase (decrease) in accounts payable	<u>37,748</u>
Net cash provided (used) by operating activities	<u><u>\$ 574,801</u></u>

The accompanying notes are an integral part of this statement.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Calhoun Port Authority (the "Port"), formerly known as the Calhoun County Navigation District, was created as a conservation and reclamation district pursuant to Article XVI, Section 59 of the Texas Constitution by Chapter 195, Acts of the 53rd Texas Legislature, Regular Session, 1953. The Port operates under a Board of Commissioners/Port Director form of government and provides and maintains port facilities for shipping purposes.

The Port was organized to facilitate the construction of a deep water navigation channel from the Gulf of Mexico to the Point Comfort, Calhoun County, Texas, dock facilities and turning basin. The Port has patents to all lands upon which the channels and jetties are situated; however, the United States Army Corps of Engineers has control over the use and maintenance of the jetties.

The Port's Commissioners are elected by the public and have the legal authority to govern, assess taxes, and designate management. The Port is financially independent with respect to any other subdivision, political or otherwise.

The accounting and reporting policies of the Port conform to generally accepted accounting principles (GAAP), as applicable to governmental units.

A. Reporting Entity

In evaluating how to define the government, for financial reporting purposes, the Port's Commissioners have considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Under these guidelines the reporting entity consists of the primary government (all funds of the Port), organizations for which the primary government is financially accountable, organizations for which the primary government is not financially accountable, organizations that raise and hold economic resources for the direct benefit of the primary government, and any other organization for which the nature and significance of the relationship with the primary government is such that exclusion could cause the Port's financial statements to be misleading or incomplete. The component unit discussed in this note is included in the Port's financial statements because of the significance of its relationship with the Port.

The following component unit is included in the accompanying financial statements:

In the "Governmental Funds" financial statements of the Port, the Special Revenue Fund represents the Calhoun County Navigation Industrial Development Authority (the "Authority"), a non-profit industrial development corporation organized under the Development Corporation Act of 1979. The Port's Board of Commissioners and Port Director also serve as the Board for the Authority, which gives the Port oversight responsibilities with respect to the Authority. The Authority is considered a blended component unit of the Port under the criteria of GASB Statement No. 14. Separate financial statements of the Authority may be obtained from the office of the Port.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Government-wide and Fund Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Port considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, fees for services and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Port.

The proprietary fund type is accounted for on a flow of *economic resources measurement focus* and utilize the *accrual basis of accounting*. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Position. The fund equity is segregated into net investment in capital assets, restricted net position, and unrestricted net position.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - (Continued)

The Port reports the following major governmental funds:

The General Fund is the Port's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Industrial Development Authority Fund, which is a special revenue fund, is established to account for the operations of the Authority, a blended component unit of the Port.

The Port reports the following major proprietary fund:

The AN/NH3 Facility Fund, an enterprise fund, is established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered through user charges.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between various functions of the Port. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Port's enterprise fund is storage fees and lease revenue. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Budgets and Budgetary Accounting

The budget for the General Fund is adopted on a GAAP basis. The budget is amended by a quorum of the Commissioners. A budget comparison is presented for the General Fund in the required supplementary information. The fund level is the legal level of budgetary control. The Port does not employ the use of encumbrances in its budgetary accounting.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Deposits and Investments

The Port's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The Port may invest its excess funds in any instruments authorized by the Public Funds Investment Act of Texas. Investments authorized under this Act include, but are not limited to, the following: Obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; certificates of deposit issued by a state or financial institution domiciled in the State of Texas which is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or otherwise secured; and certain repurchase agreements.

F. Other Accounting Policies

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown net of an allowance for uncollectibles.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods. These payments are reported as deferred expenditures (governmental funds) or prepaid expenses (proprietary funds) in the fund financial statements and as deferred expenditures/expenses in the government-wide statements.

Capital Assets

Capital assets, which include land, structures, and equipment are reported in the applicable governmental activities column in the government-wide statement of net position. The Port defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Other Accounting Policies - (Continued)

Capital Assets - (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The Port's capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	6-40
Buildings	20-40
Equipment	5-20

Long-term Obligations

In the government-wide financial statements, long-term debt is reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Inflows of Resources

The statement of net position also reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Port has two types of items, which arise under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. In addition, the Port also reports unearned revenues from various leases in this category.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Other Accounting Policies - (Continued)

Fund Equity

GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*," (the "Statement") was issued in February 2009. This Statement eliminates the requirement to report governmental fund balances as reserved, unreserved, or designated. It replaces those categories with five possible classifications of governmental fund balances - nonspendable, restricted, committed, assigned, and unassigned. This Statement also redefines the governmental funds for clarity and to be consistent with these new fund balance classifications. The provisions of this Statement are effective for periods beginning after June 15, 2010. The Port did not adopt a new fund balance policy in accordance with GASB Statement No. 54 during fiscal year 2017. This Statement did not have an impact on the Port's functions, financial position or results of operations.

Use of Estimates

The preparation of the government-wide and fund financial statements in conformity with generally accepted accounting principles requires management to make estimates and assessments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 2: DEPOSITS AND INVESTMENTS

The Port's funds are deposited and invested under the terms of the depository contract. The depository bank, First National Bank in Port Lavaca, deposits for safekeeping and trust with agent bank, approved pledged securities in an amount sufficient to protect the Port's funds on a day-to-day basis during the period of the contract. The pledge-approved securities are waived only to the extent of the depository bank's dollar amount of FDIC insurance.

As of June 30, 2017, the carrying amount of the Port's deposits was \$22,378,033 and the bank balance was \$22,380,194. The Port's depository bank, First National Bank, pledges securities as collateral for the Port's deposits. The amount of the Port's deposits covered by a combination of collateral and federal depository insurance at June 30, 2017, was as follows:

Securities pledged as collateral (at market value)	\$ 22,548,786
Federal depository insurance	<u>250,000</u>
Total coverage	<u>\$ 22,798,786</u>

Interest Rate Risk

At year-end, the Port was not exposed to concentration of interest rate risk.

Credit Risk

At year-end, the Port was not exposed to credit risk.

NOTE 2: DEPOSITS AND INVESTMENTS - (Continued)**Concentration of Credit Risk**

The Port's investment policy requires that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific user. At year-end, the Port was not exposed to concentration of credit risk.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Port's deposits may not be returned to it. At June 30, 2017, the Port was not exposed to custodial credit risk.

NOTE 3: RECEIVABLES

Receivables at June 30, 2017, consist of the following:

	<u>General</u>	<u>Industrial Development</u>	<u>AN/NH3 Facility</u>	<u>Total</u>
Gross receivables:				
Accounts	\$ 257,819	\$ -	\$ 253,948	\$ 511,767
Ad valorem taxes	1,535	-	-	1,535
BP	-	32,400,000	-	32,400,000
Total gross receivables	259,354	32,400,000	253,948	32,913,302
Less: allowances	-	-	-	-
Total net receivables	<u>\$ 259,354</u>	<u>\$ 32,400,000</u>	<u>\$ 253,948</u>	<u>\$ 32,913,302</u>

The Port's governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

At the end of the current fiscal year, the various components of deferred inflows reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General Fund			
Ad valorem taxes receivable	\$ 1,535	\$ -	\$ 1,535
Leases	-	1,221,548	1,221,548
Total	<u>\$ 1,535</u>	<u>\$ 1,221,548</u>	<u>\$ 1,223,083</u>

The Port's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1st for all real and business personal property located in the Port. Taxes are delinquent by February 1st following the October 1st levy date. A statutory lien becomes effective on all property with unpaid taxes as of January 1st of the year following the assessment.

NOTE 4: CAPITAL ASSETS

The Port's capital asset activity for the year ended June 30, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 9,004,813	\$ 314,634	\$ -	\$ 9,319,447
Construction in progress	1,000,000	566,997	-	1,566,997
Total capital assets not being depreciated	<u>10,004,813</u>	<u>881,631</u>	<u>-</u>	<u>10,886,444</u>
Capital assets, being depreciated				
Machinery and equipment	1,941,062	27,342	-	1,968,404
Buildings	3,550,008	-	-	3,550,008
Infrastructure	148,595,314	109,053	(30,666,187)	118,038,180
Total capital assets being depreciated	<u>154,086,384</u>	<u>136,395</u>	<u>(30,666,187)</u>	<u>123,556,592</u>
Less accumulated depreciation for				
Machinery and equipment	1,619,933	66,116	-	1,686,049
Buildings	2,255,989	43,447	-	2,299,436
Infrastructure	84,045,369	2,423,231	(3,897,161)	82,571,439
Total accumulated depreciation	<u>87,921,291</u>	<u>2,532,794</u>	<u>(3,897,161)</u>	<u>86,556,924</u>
Total capital assets being depreciated, net	<u>66,165,093</u>	<u>(2,396,399)</u>	<u>(26,769,026)</u>	<u>36,999,668</u>
Governmental activities capital assets, net	<u>\$ 76,169,906</u>	<u>\$ (1,514,768)</u>	<u>\$ (26,769,026)</u>	<u>\$ 47,886,112</u>
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 65,000	\$ -	\$ -	\$ 65,000
Total capital assets not being depreciated	<u>65,000</u>	<u>-</u>	<u>-</u>	<u>65,000</u>
Capital assets, being depreciated				
Machinery and equipment	1,111,578	-	-	1,111,578
Infrastructure	32,610,122	-	-	32,610,122
Total capital assets being depreciated	<u>33,721,700</u>	<u>-</u>	<u>-</u>	<u>33,721,700</u>
Less accumulated depreciation for				
Machinery and equipment	387,719	38,155	-	425,874
Infrastructure	15,602,546	937,480	-	16,540,026
Total accumulated depreciation	<u>15,990,265</u>	<u>975,635</u>	<u>-</u>	<u>16,965,900</u>
Total capital assets being depreciated, net	<u>17,731,435</u>	<u>(975,635)</u>	<u>-</u>	<u>16,755,800</u>
Business-type activities capital assets, net	<u>\$ 17,796,435</u>	<u>\$ (975,635)</u>	<u>\$ -</u>	<u>\$ 16,820,800</u>
Governmental activities:				
Port operations			\$ 2,532,794	
Total depreciation expense - governmental activities			<u>\$ 2,532,794</u>	
Business-type activities				
AN/NH3 Facility			\$ 975,635	
Total depreciation expense - business-type activities			<u>\$ 975,635</u>	

NOTE 5: BONDS PAYABLE

During the year ended June 30, 1998, the Port Authority and BP Chemicals, Inc. (BPC), BPC I entered into an interim financing agreement whereby the Authority agreed to construct a port storage tank and marine transfer facility (Facility). BPC provided the interim financing to the Authority for the construction of the Facility, which would ultimately be owned and operated by the Port.

Under the terms of the agreement, the Industrial Authority issued port revenue bonds (Bonds) during December 1998. Proceeds from the Bonds were used to repay BPC for the construction advances that it provided and to cover the cost of completion of the Facility. Once completed, the Facility was sold by the Authority to the Port for \$30,000,000 under a seller-financing agreement. The resulting loan payable from the Port to the Authority carries terms that are identical to those of the Bonds (see bonds' terms below). On the statement of net position, the loan payable is reflected as "Internal Balances" under Governmental Activities and Business-type Activities. The bonds payable are reflected as "Noncurrent Liabilities Due in More Than One Year" under Governmental Activities. Accrued interest payable, if any, on the outstanding loan principal is included as a liability under business-type activities. On the Governmental Funds Balance Sheet, the loan payable is reflected as "Advances to Other Fund" under Special Revenue. On the Proprietary Funds Statement of Net Position, the loan payable is reflected as "Advances From Other Fund".

In conjunction with the transactions described above, the Port, the Authority, and BPC entered into several related agreements setting forth the following terms:

- BPC *fully guarantees* payment of the Bonds (including interest).
- BPC will be the primary user of, and have preferential rights to reserve the use of, the Facility.
- Revenue generated from Facility operations will be used to meet debt service obligations of the Bonds.
- BPC guarantees that payments to the Port for use of the Facility will be in an amount adequate to cover operating costs of the Facility plus debt service obligations of the Bonds.
- After a period of 25 years (beginning with the initial delivery date of the Bonds), the Facility will be sold by the Port through competitive bidding. BPC shall have the right of first refusal to acquire the Facility by matching the highest bid (if from a party other than BPC).

The terms of the Bonds are as follows:

Issue: Calhoun County Navigation Industrial Development Authority Port Revenue Bonds (The British Petroleum Company p.l.c., guarantor), Series 1998

Maturity Date: January 1, 2024

Interest Rate: Variable (range of 0.70% to 1.05% during the year ended June 30, 2017)

Interest is paid periodically as it becomes due. Interest paid during the year ended June 30, 2017 totaled \$250,777. The entire principal balance of \$30,000,000 is due January 1, 2024.

NOTE 5: BONDS PAYABLE - (Continued)

On December 18, 2003, the Industrial Authority issued port revenue bonds of \$2,400,000, the proceeds of which were used to construct a new AN/NH3 tank. The bonds were issued pursuant to agreements with terms very similar to the agreements used for the \$30,000,000 issue described above. The three parties to the agreements are the same for this \$2,400,000 issue as they were for the \$30,000,000 issue; and the accounting for the \$2,400,000 issue is identical to that of the \$30,000,000 issue.

The terms of the \$2,400,000 bond issue are as follows:

Issue: Calhoun County Navigation Industrial Development Authority Port Revenue Bonds (BP p.l.c., guarantor), Series 2003

Maturity Date: January 1, 2024

Interest Rate: Variable (range of 0.35% to .94% during the year ended June 30, 2017)

Interest is paid periodically as it becomes due. Interest paid during the year ended June 30, 2017 totaled \$15,680. The entire principal balance of \$2,400,000 is due January 1, 2024.

Long-term liability activity for the year ended June 30, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Port Revenue Bonds	<u>\$ 32,400,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,400,000</u>	<u>\$ -</u>
Total long-term liabilities	<u>\$ 32,400,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,400,000</u>	<u>\$ -</u>

The interest rates are variable and as of June 30, 2017 the rates were 0.94% for the 2003 issue and 1.05% for the 1998 issue. Using these rates, annual interest expense would be \$337,560.

NOTE 6: REVENUE BONDS ISSUED ON BEHALF OF OTHERS

The Authority and the Port have assisted industries within the district by issuing revenue bonds on their behalf (see Note 1). For each of these bond issues, the Authority or the Port acted as an issuing conduit so that the user of the bond proceeds benefited from reduced debt service requirements. The users of the bond proceeds pledge their credit, bear sole responsibility for all debt service, make all payments directly to the trustee, and completely indemnify the Authority and the Port for any costs incurred. Therefore, these bonds do not constitute indebtedness of the Authority or the Port and are not reported in the Port's financial statements.

Revenue bonds outstanding at June 30, 2017, are as follows:

<u>Series</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Effective Interest Rate</u>	<u>Original Amount</u>	<u>Outstanding at 6-30-17</u>
Port Revenue Bonds (Formosa Plastics Corporation, Texas Project)					
1994	10-01-94	11-01-15	Variable	\$ 48,500,000	\$ 48,500,000
Port Revenue Bonds (Formosa Plastics Corporation, Texas Project)					
2000	05-12-00	05-01-20	Variable	\$ 5,500,000	\$ 5,500,000
Solid Waste Disposal Revenue Bonds (Formosa Plastics Corporation)					
2000	05-12-00	05-01-25	Variable	\$ 25,000,000	\$ 25,000,000
Solid Waste Disposal Revenue Bonds (Formosa Plastics Corporation)					
2001	05-02-01	05-01-31	Variable	\$ 25,000,000	\$ 25,000,000
Pollution Control Revenue Bonds (Formosa Plastics Corporation)					
2002	09-01-02	09-01-32	Variable	\$ 10,000,000	\$ 10,000,000
Environmental Facilities Revenue Bonds (Formosa Plastics Corporation)					
2004	05-01-04	05-01-34	Variable	\$ 13,775,000	\$ 13,775,000
Tax-Exempt Adjustable Mode Environmental Facilities Revenue Bonds (Formosa Plastics Corp.)					
2006	06-29-06	06-01-36	Variable	\$ 28,500,000	\$ 28,500,000
Adjustable Mode Environmental Facilities Revenue Bonds (Formosa Plastics Corporation)					
2007	11-15-07	11-01-37	Variable	\$ 50,000,000	\$ 50,000,000
Adjustable Mode Environmental Facilities Revenue Bonds (Formosa Plastics Corporation)					
2008	12-03-08	11-01-38	Variable	\$ 50,000,000	\$ 50,000,000
Adjustable Mode Port Revenue Bonds (Formosa Plastics Corporation)					
2011A	09-29-11	09-01-39	Variable	\$ 32,300,000	\$ 32,300,000
Adjustable Mode Environmental Facilities Revenue Bonds (Formosa Plastics Corporation)					
2011B	09-29-11	09-01-41	Variable	\$ 45,000,000	\$ 45,000,000
Adjustable Mode Port Revenue Bonds (Formosa Plastics Corporation)					
2011C	09-29-11	09-01-31	Variable	\$ 27,500,000	\$ 27,500,000
Adjustable Mode Environmental Facilities Revenue Bonds (Formosa Plastics Corporation)					
2012	04-26-12	04-01-42	Variable	\$ 50,000,000	\$ 50,000,000

NOTE 7: RISK MANAGEMENT

The Port is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Port purchased commercial insurance to cover risks associated with potential claims during fiscal year 2017. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

The Port is subject to claims and lawsuits which arise primarily in the ordinary course of business. As of June 30, 2017, management was not aware of any material pending or threatened litigation.

NOTE 8: OPERATING LEASES

The Port leases buildings, land, pipelines, and easements, the original cost of which cannot be readily determined, to several entities under operating leases expiring in various years through 2041. At June 30, 2017, minimum future rental revenues are expected to be as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2018	\$ 4,733,544
2019	2,268,861
2020	2,273,160
2021	2,230,455
2022	2,218,847
	<u>13,724,867</u>
Thereafter	26,098,308
	<u>\$ 39,823,175</u>

There are various renewal options to extend the leases and these revenues are not reflected above.

- * The drop in anticipated revenue is due to the potential for Alcoa to terminate their lease with the Port after the third year of the contract.

NOTE 9: DEFERRED COMPENSATION PLAN

The Port offers its employees and board members a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time Port employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, or unforeseeable emergency. The deferred compensation is available to employees' beneficiaries in the case of death.

Eligibility of employees for Port contributions to the plan will be one year of full-time, uninterrupted employment. Port contributions to the plan on behalf of employees are as follows:

<u>Years of Employment</u>	<u>% of Base Annual Salary Contributed</u>
One	2.83%
Two	5.67%
Three or more	8.50%

NOTE 9: DEFERRED COMPENSATION PLAN - (Continued)

Board members are eligible for Port contributions to the plan upon commencement of their elected terms. Port contributions to the plan on behalf of board members are fixed at \$125 per month per member. However, board members are not considered to be employees of the Port. Accordingly, board members are not allowed to defer any portion of their board service fees into the plan.

The Port contributes to the plan on behalf of all eligible employees and board members. For the fiscal year ended June 30, 2017, the Port contributed \$82,832 to the plan.

NOTE 10: COMPENSATED ABSENCES

Port employees are not paid for unused sick days upon termination. However, the Port's personnel policy authorizes the Port to purchase up to 56 hours of unused sick leave annually from each full-time employee.

The amount of vacation pay due to employees as of June 30, 2017, is immaterial to the financial statements taken as a whole. Consequently, no liability has been accrued for compensated absences.

NOTE 11: COMMITMENTS AND CONTINGENCIES

The Port has a lease agreement with NGL Crude Terminals for a 10 year period on 17.85 acres for \$446,250 per year. There are two storage tanks for crude oil and condensate that will total 355,000 barrels. The total throughput via the terminal for the first quarter of FY2018 is 106,652.4 short tons or approximately 237,000 barrels per month via barges. The lease has a guaranteed annual throughput of 500,000 short tons.

Matagorda Bay Costa Azul Terminal, LLC, has been assigned the SN Terminal LLC lease on 35.55 acres. Matagorda Bay Costa Azul LLC is a wholly owned subsidiary of NGL Energy and will use this property to expand their storage capacity at the Calhoun Port Authority. This lease has a guaranteed throughput on their acreage of 300,000 short tons.

NST Point Comfort Holdings LLC has constructed a 100,000 barrel storage facility for crude oil and condensate shipments via the port on deep draft vessels and barges. The total guaranteed throughput for the facility is 500,000 short tons per year. NST purchased a twelve inch pipe line from CrossTex Pipeline that originates outside of Edna, Texas and terminates inside the NST leasehold. This line will be utilized to tie into other pipe lines coming out of the Eagle Ford Shale play to bring crude oil and condensate into the NST storage facility. NST Point Comfort Holdings has moved approximately 177,000 barrels of crude oil and condensate during the first quarter of FY2018.

The Calhoun Port Authority has leased 11.76 acres of land to Arrowhead Pipeline for \$7,500 per acre for a 10 year initial period with the annual lease payment being \$88,200. Arrowhead has the option of renewing the lease for four, five year periods. Arrowhead has constructed a 200,000 barrel storage tank for crude oil and condensate that will be shipped out of the Port in barges and deep draft vessels. Arrowhead is expecting to begin shipping crude oil and condensate beginning in April of 2018 across the Port's general cargo dock. Guaranteed throughput for this lease is 500,000 short tons per year.

The Calhoun Port Authority has entered into an option to lease agreement for approximately 45.0 acres of land located on the Port's South Peninsula property with Namerico Energy Holdings, LLC for a 1 year period beginning August 9, 2017 and ending on August 8, 2018 for an option fee of \$237,500.

NOTE 12: EXTRAORDINARY ITEM

The Port received a capital contribution in the form a dry bulk dock facility and conveyor system in fiscal year 2011. The total amount of the capital contribution was \$54,404,516. This total consisted of \$23,738,329 for the dry bulk dock construction and \$30,666,187 for the conveyor system used to transport certain material. The primary purpose of the dock and conveyor system was to enable the Port to efficiently transport materials to a nearby electrical generating facility. The material transported was the fuel used in the electrical generation process. Due to the declining price of natural gas in the last few years the electric plant was converted to utilize natural gas in the generation process. As a result the conveyor system is no longer used in the Port's operations. Since the conveyor system is no longer functioning, management has determined that the asset value has been permanently impaired and has decided to write off the remaining book value of the conveyor system. As noted above the original cost was \$30,666,187, depreciation of \$3,897,161 has been recorded in prior years resulting in a book value of 26,769,026 that was written off in fiscal year 2017. This amount has been recorded as an extraordinary item in the accompanying government-wide financial statements in the governmental activities.

NOTE 13: SUBSEQUENT EVENT

Subsequent to year end, Hurricane Harvey impacted the Texas Gulf Coast causing significant damage to Port facilities. Damages are estimated to be approximately \$350,000, with an estimated \$340,000 to be paid from insurance proceeds resulting in an estimated cost to the Port of \$10,000.

Required Supplementary Information

CALHOUN PORT AUTHORITY**MAJOR GOVERNMENTAL FUNDS - GENERAL FUND****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE****BUDGET AND ACTUAL***For the year ended June 30, 2017*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES				
Taxes				
Ad valorem taxes	\$ 51,000	\$ 21,600	\$ 22,237	\$ 637
Charges for services				
Wharfage	1,386,500	1,202,582	1,159,241	(43,341)
Dockage	1,250,500	1,054,500	1,048,294	(6,206)
Annual leases	4,631,724	4,795,019	4,965,103	170,084
Usage fees	548,150	435,150	435,881	731
Option revenue	-	50,000	-	(50,000)
Investment income				
Interest	86,995	86,995	103,032	16,037
Intergovernmental	2,400	2,400	2,400	-
Miscellaneous	169,089	300,089	326,808	26,719
Total revenues	<u>8,126,358</u>	<u>7,948,335</u>	<u>8,062,996</u>	<u>114,661</u>
EXPENDITURES				
Current				
General government				
Personnel expenditures	1,641,063	1,646,063	1,623,365	22,698
Other administrative	685,200	658,489	636,505	21,984
Maintenance and operations	2,832,250	1,403,440	1,236,762	166,678
Security	332,640	297,834	289,231	8,603
Debt service contribution	50,000	50,000	42,336	7,664
Professional services	387,650	556,833	971,841	(415,008)
Capital outlay	-	369,743	343,877	25,866
Total expenditures	<u>5,928,803</u>	<u>4,982,402</u>	<u>5,143,917</u>	<u>(161,515)</u>
Excess (deficiency) of revenues over expenditures	2,197,555	2,965,933	2,919,079	(46,854)
 Fund balance - beginning	<u>15,179,696</u>	<u>15,179,696</u>	<u>15,179,696</u>	<u>-</u>
Fund balance - ending	<u>\$ 17,377,251</u>	<u>\$ 18,145,629</u>	<u>\$ 18,098,775</u>	<u>\$ (46,854)</u>

The accompanying notes to required supplementary information are an integral part of this schedule.

CALHOUN PORT AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2017

NOTE 1: BUDGETARY INFORMATION

The Port annually adopts budgets that are prepared using the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

The Required Supplementary Information does not include a budgetary comparison schedule for the Major Special Revenue Fund, Industrial Development Authority (the "Authority"). Due to the lack of annual operations in the fund, a budget is not adopted by the Authority and therefore a budgetary comparison schedule is not presented.

For the year ended June 30, 2017 the Port complied with budgetary restrictions at all departmental levels except the following. The following table details these variances:

<u>General Fund - Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
Professional services	\$ 556,833	\$ 971,841	\$ 415,008

Other Supplementary Information

CALHOUN PORT AUTHORITY**SCHEDULE OF PRINCIPAL PROPERTY TAXPAYERS****(UNAUDITED)***For the year ended June 30, 2017*

2017 Tax Roll			
Taxpayer	Type of Business	Taxable Assessed Valuation	Percentage of Total Port Taxable Assessed Valuation
Formosa Plastics Corp., Texas	Chemical Manufacturer	\$ 740,719,510	62.69%
Formosa Plastics Corp., America	Chemical Manufacturer	137,410,060	11.63%
Formosa Utility Venture, Ltd.	Private Utility Company	79,104,240	6.69%
Alcoa World Alumina, LLC	Aluminum/Chemical Manufacturer	68,267,460	5.78%
Nan Ya Plastics Corp., America	Chemical Manufacturer	40,672,620	3.44%
Orion Marine Construction, Inc.	Marine Construction Company	33,635,700	2.85%
TW LaQuay Marine LLC	Transportation Company	25,000,030	2.12%
AEP Central Power & Light Company	Electrical Utility Company	22,882,000	1.94%
Formosa Transrail Corp.	Transportation Company	22,236,480	1.88%
Rexco Inc	General Construction Company	11,623,190	0.98%
		<u>\$ 1,181,551,290</u>	<u>100.00%</u>

CALHOUN PORT AUTHORITY
SCHEDULE OF INSURANCE COVERAGE
(UNAUDITED)
June 30, 2017

Type of Coverage	Carrier	Policy No.	Policy Period	
			From	To
Workers' Compensation	Texas Municipal League	8713	10/1/2016	10/1/2017
Errors & Omissions Liability	Texas Municipal League	8713	10/1/2016	10/1/2017
Automobile	Texas Municipal League	8713	10/1/2016	10/1/2017
Primary Property	Lloyds of London	B0621M4MCS041501A	4/1/2017	4/1/2018
Liability	Lloyds of London	B0621M4MCS041501A	4/1/2017	4/1/2018
Excess Property	Lloyds of London	B0621M4MCS041501A	4/1/2017	4/1/2018
Official Bond & Oath	Western Surety	13735127	5/1/2015	5/1/2019
Official Bond & Oath	Western Surety	13735121	5/6/2014	5/1/2018
Official Bond & Oath	Merchants Bonding	TX598415	5/9/2017	5/9/2021
Official Bond & Oath	Merchants Bonding	TX616963	5/6/2015	5/6/2019
Official Bond & Oath	Merchants Bonding	TX616962	5/6/2015	5/16/2019
Official Bond & Oath	Merchants Bonding	TX632468	5/11/2017	5/11/2021
Fidelity Crime Bond	Fidelity & Deposit Co.	CCP0012071	6/30/2017	6/30/2018
International Customs Bond	Western Surety Co.	460701964	2/15/2017	2/14/2018
FTZ Bond	Western Surety Co.	9909IV972	10/13/2016	10/13/2017

SOURCE: Calhoun Port Authority

<u>Premium</u>	<u>Amount of Coverage</u>	<u>Amount of Deductible</u>
\$ 21,048.00	Statutory Limit	N/A
\$ 1,102.00	\$ 500,000.00	\$ 5,000.00
\$ 1,250.00	\$ 500,000.00	\$ 5,000.00
\$ 180,500.00	\$ 5,000,000.00	\$ 10,000.00
\$ 33,963.00	\$ 5,000,000.00	\$ 10,000.00
\$ 121,838.00	\$ 35,000,000.00	\$ 10,000.00
\$ 177.50	\$ 1,000.00	N/A
\$ 177.50	\$ 1,000.00	
\$ 178.00	\$ 1,000.00	
\$ 178.00	\$ 1,000.00	
\$ 178.00	\$ 1,000.00	N/A
\$ 135.00	\$ 1,000.00	
\$ 723.00	\$ 300,000.00	\$ 3,000.00
\$ 2,000.00	\$ 100,000.00	N/A
\$ 1,000.00	\$ 100,000.00	N/A

CALHOUN PORT AUTHORITY**CARGO TRAFFIC STATISTICS****(UNAUDITED)***For the years ended June 30, 2017, 2016, 2015, 2014, 2013 and 2012*

	2017		2016		2015	
	Port Tonnage	Percentage	Port Tonnage	Percentage	Port Tonnage	Percentage
Liquid bulk cargo	3,711,728.7	99.560%	4,142,039.4	100.000%	3,974,436.5	100.000%
Dry bulk cargo	-	0.000%	-	0.000%	-	0.000%
Other	16,410.1	0.440%	-	0.000%	-	0.000%
Total	3,728,138.8	100.000%	4,142,039.4	100.000%	3,974,436.5	100.000%
Tonnage/percent export	1,652,187.9	44.317%	1,877,805.4	45.335%	1,704,725.6	42.892%
Tonnage/percent import	586,452.8	15.730%	759,182.0	18.329%	596,300.6	15.003%
Tonnage/percent domestic	1,489,498.1	39.953%	1,505,052.0	36.336%	1,673,410.3	42.105%
Total	3,728,138.8	100.000%	4,142,039.4	100.000%	3,974,436.5	100.000%
Ships	277		319		262	
Barges	782		806		781	
Total	1,059		1,125		1,043	

SOURCE: Calhoun Port Authority

2014		2013		2012	
Port Tonnage	Percentage	Port Tonnage	Percentage	Port Tonnage	Percentage
4,325,106.7	99.432%	4,140,375.4	85.517%	4,070,409.2	89.014%
24,700.0	0.568%	701,231.5	14.483%	502,355.8	10.986%
-	0.000%	-	0.000%	-	0.000%
<u>4,349,806.7</u>	<u>100.000%</u>	<u>4,841,606.9</u>	<u>100.000%</u>	<u>4,572,765.0</u>	<u>100.000%</u>
2,087,791.7	47.997%	2,354,614.5	48.633%	2,267,117.5	49.579%
627,481.8	14.426%	628,658.8	12.985%	585,159.2	12.797%
<u>1,634,533.2</u>	<u>37.577%</u>	<u>1,858,333.6</u>	<u>38.382%</u>	<u>1,720,488.3</u>	<u>37.624%</u>
<u>4,349,806.7</u>	<u>100.000%</u>	<u>4,841,606.9</u>	<u>100.000%</u>	<u>4,572,765.0</u>	<u>100.000%</u>
293		302		277	
<u>790</u>		<u>835</u>		<u>705</u>	
<u>1,083</u>		<u>1,137</u>		<u>982</u>	